LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7748 **NOTE PREPARED:** Apr 8, 2003
BILL NUMBER: SB 505 **BILL AMENDED:**

SUBJECT: Automobiles and the inventory tax.

FIRST AUTHOR: Sen. Miller **BILL STATUS:** As Passed - House
FIRST SPONSOR: Rep. Stevenson

FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill requires the inventory of automobile dealers to be assessed at the dealer's established place of business. The bill also exempts from property taxation the inventory of an out-of-state automobile dealer that is located in Indiana for sale on the wholesale automobile market.

Effective Date: January 1, 2004.

Explanation of State Expenditures: *Exemption*: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all qualifying levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax for qualifying levies due on owner-occupied residences.

The tax shifts from business inventory to other property in the bill would cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any additional PTRC or Homestead Credit payments would ultimately come from the state General Fund. The additional state expense is estimated at $1,200 - $12,000 in FY 2005 (partial year), $3,500 - $35,000 in FY 2006 and $2,300 - $23,000 in FY 2007. There would be no additional expense beginning in FY 2008.

Explanation of State Revenues: *Exemption*: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about $25 - $250 in each in CY 2005 and CY 2006.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Assessment Location*: Under current law, personal property is to be assessed where it is situated on March 1 if the property is regularly used or permanently located in that place even if it is not the owner's residence. Under this bill, all of a motor vehicle dealer's inventory would be assessed at the dealer's established place of business beginning with taxes paid in CY 2005.

This provision could clear up any confusion over assessment location when vehicles are offered for sale at a temporary location, such as a tent sale, on March 1. The bill would also ensure that a vehicle in inventory would be assessed at the dealer's established place of business even if the dealer chooses to temporarily store the vehicle in another location.

Under current law, counties may elect to provide a 100% deduction for inventory beginning with taxes paid in CY 2004. This deduction will apply in all counties beginning with taxes paid in CY 2007, even if the county does not make the election. So, for taxes paid in CY 2005 and CY 2006, this bill would (1) prevent a reduction in assessed value (AV) that would occur if vehicles are stored in a county that provides the deduction and (2) prevent a shift of inventory AV from one taxing district to another if both districts are in counties that do not offer the deduction. This provision would have no real effect beginning with taxes paid in CY 2007 as all inventory in all locations will be property tax free.

Exemption: This bill would also exempt a vehicle in inventory from property taxation if the vehicle is owned by an out-of-state dealer and is for sale on the wholesale market. This exemption would take effect with property taxes paid in CY 2005.

According to data obtained from the Department of Local Government Finance, taxpayers who identified themselves as vehicle wholesalers reported about $3.6 M in AV (in 2002 terms) statewide for taxes paid in CY 2000. It is estimated that the property tax due on this same valuation in CY 2005 will be about $105,000.

There are three issues to be noted about the above tax amount:

1) The portion of this amount that was reported by or on the behalf of out-of-state owners is not known;
2) The amount of wholesale vehicle inventory reported by out-of-state owners who did not identify themselves as vehicle wholesalers, if any, is not known; and
3) This data was for taxes paid in CY 2000, the last year available. It does not contain filings for new operations.

Because of these caveats, it is estimated that the property tax paid on vehicles that are owned by out-of-state owners and are in wholesale trade could range anywhere from $25,000 to $200,000. The bill would shift this amount of property tax to other taxpayers in CY 2005 and CY 2006. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the exemption amount applicable to that fund.

This provision would have no real effect beginning with taxes paid in CY 2007 as all inventory will be property tax free.

State Agencies Affected:

Local Agencies Affected: County auditors; Local units; School corporations.

Information Sources: Department of Local Government Finance; Local Government Database.

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